

California Department of Corrections

Financial Information Memo

SUBJECT:	FIM NUMBER:
NOTIFICATION OF ACTUAL OR SUSPECTED FRAUD AND IRREGULARITIES	2004-17
REFERENCES:	DATE:
STATE ADMINISTRATIVE MANUAL (SAM) SECTION 20080 DEPARTMENT OF CORRECTIONS OPERATIONS MANUAL (DOM) CHAPTER 3, ARTICLE 14 ACCOUNTING INFORMATION MEMORANDUM, 99-13	December 3, 2004

DISTRIBUTION

Executive Staff
Regional Institution Administrators
Regional Parole Administrators
Wardens

PURPOSE

The purpose of this Financial Information Memo (FIM) is to standardize the preparation and format of Notifications of Actual or Suspected Fraud and Irregularities as required by SAM 20080.

DISCUSSION

SAM section 20080 requires state agencies to notify the Department of Finance, Office of State Audits and Evaluations (OSAE) and the Bureau of State Audits (BSA) of all cases of actual or suspected fraud, defalcation, theft, or other irregularities it has become aware of either internally or by referral. This requirement applies to all incidents involving state assets, whether alleged against state employees or others.

To provide clarification of the terminology provided by SAM, Webster's New World Dictionary provided the following definitions:

- Fraud – intentional deception to cause a person to give up property or some lawful right;
- Defalcation – embezzlement;
- Theft – the act or an instance of stealing;
- Irregularities – deviation from the customary or established rule, procedure.

California Department of Corrections

Financial Information Memo

FIM 2004-

Notification of Actual or Suspected Fraud and Irregularities

Page 2

DOM section 31140.1 states *“Every allegation of employee misconduct shall be promptly, objectively, and thoroughly investigated, reported, and audited.”*

DOM 31140.6.2 indicates that in situations where there is a misuse of State Property, including theft, it is to be considered a Category II Internal Affairs Investigation.

BACKGROUND

SAM 20080 requires notification to OSAE and BSA in writing not later than the first business day following the actual or suspected fraud, defalcation, theft, or irregularity. In those cases where complete information is not available, a preliminary notification must be made. A complete notification will be made within thirty days and if not completed within 30 days, a progress report will be submitted every thirty days until completed. The CDC requires an investigation of every actual or suspected fraud, defalcation, theft or irregularity.

ACTION REQUIRED

To ensure local accountability, the designated staff responsible for the notifications are: the Warden for Institutions, the Parole Agent III for Parole Offices and the Deputy Director for Headquarters divisions. Deputy Directors may delegate this responsibility to their Assistant Deputy Director where the position exists.

Due to the sensitive nature of these items, investigations must be conducted under the authority of the Office of Internal Affairs.

The new procedure is shown on Attachment A. This new procedure establishes standard timeframes and templates for reporting all cases of actual or suspected fraud, defalcation, theft, or other irregularities.

California Department of Corrections

Financial Information Memo

FIM 2004-

Notification of Actual or Suspected Fraud and Irregularities

Page 3

If you have any questions concerning this memorandum, please contact your Accounting Administrator: for Headquarters and Paroles, contact William Dougherty, Accounting Management Branch, at (916) 324-6525; for Institutions, contact Timothy Gilpin, Regional Accounting - North, at (916) 323-3351.

ORIGINAL SIGNED BY:

DAVID LEWIS

Deputy Director (A)

Financial Services Division

Attachments

cc: Regional Accounting Administrators
Regional Accounting Offices
Accounting Management Branch

California Department of Corrections

Financial Information Memo

FIM 2004-

Notification of Actual or Suspected Fraud and Irregularities

Page 4

Attachment A

PROCEDURES FOR NOTIFICATION OF ACTUAL OR SUSPECTED FRAUD AND IRREGULARITIES

The State Administrative Manual (SAM) Section 20080 requires all State entities to promptly notify the Department of Finance, Office of State Audits and Evaluations (OSAE) and the Bureau of State Audits (BSA) of all cases of actual or suspected fraud, defalcation, theft or other irregularities involving State assets, whether alleged against State employees or others. (For purposes of this procedure, all such cases will be further referred to as a loss.) This procedure assigns responsibilities to meet the notification deadline.

In accordance with the Department of Corrections Operations Manual (DOM) Chapter 3, Article 14 – Employee Misconduct Investigations/Inquiries, every loss will be thoroughly investigated. Progress reports must continue to be made to BSA and OSAE while the investigation is being conducted. Final notification must be given when the investigation is completed; although existing law prohibits disclosure of any specific personnel action taken.

The designated staff shall conduct fact-finding on all losses. Losses valued under \$50 shall be classified as non-critical and will require a category I investigation (investigation conducted by the Institution Internal Affairs) while those over \$50 shall be classified as critical and require a category II investigation (investigation conducted by the Headquarters' Office of Investigative Services). Multiple losses within a three month period by either the same staff or unit shall be deemed as critical and require a category II investigation regardless of the value of the loss. Due to the volatile nature of these situations, the investigations shall be immediately scheduled with completion expected within thirty (30) days.

- **RESPONSIBLE PARTIES** – The staff responsible to coordinate the notification is:
Warden for Institutions,
Parole Agent III for Parole Offices,
Deputy Directors for Headquarters Divisions. Deputy Directors may delegate this responsibility to their Assistant Deputy Director where the position exists.
- **PARTIES TO NOTIFY** – Memorandum to be sent to each of the following addresses:

Ken Willis
Director of Investigations
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

& Samuel E. Hull, Chief
Office of State Audits and Evaluations
Department of Finance
300 Capitol Mall, Suite 801
Sacramento, CA 95814

California Department of Corrections

Financial Information Memo

FIM 2004-

Notification of Actual or Suspected Fraud and Irregularities

Page 5

CC's:

Chief Deputy Director, Field Operations

Chief Deputy Director, Support Services

Deputy Director, (affected division)

Deputy Director, Financial Services Division

Deputy Director, Policy and Evaluation Division

Assistant Director, Office of Investigative Services

Chief, Program and Fiscal Audits Branch

Regional Administrator, (affected division and region)

Administrator, (Regional Accounting North/South or Accounting Management Branch)

Manager, Accounting Office (Regional Accounting, Headquarters Accounting Services Section/Inmate Services)

Associate Warden, Business Services (for Institutions)

- **CONTENTS OF NOTIFICATION** – Full and complete notification is required. If this is unable to be done in the original notification, follow up notifications will be required.

Sequence of Events – a detailed account of what happened to allow the loss.

Internal Controls that Failed – what internal controls failed or were not in place that allowed the loss to happen.

Means of Discovery – how was the loss discovered.

Follow up – is the loss being investigated and are further reports to follow. Do not include confidential investigation information or indicate that a copy of the investigation report will be made available upon completion of the investigation. It is appropriate to include case numbers, investigators names and expected completion dates.

Corrective Action Taken – have any changes in procedures, facilities, staff training or are staff reassignments occurred or being considered? Until corrective actions have been complete, follow up notifications are required.

Actual or Estimated Dollar Amount – what is the amount of the loss. If estimated, follow up notifications will have to continue until the actual amount of the loss has been determined.

Any Punitive Actions Taken or Being Considered – If a staff member caused the loss, document the actions taken, if any. Do not include the employee's name.

California Department of Corrections

Financial Information Memo

FIM 2004-

Notification of Actual or Suspected Fraud and Irregularities

Page 6

- **TIMEFRAMES FOR NOTIFICATION** – The designated staff will immediately report all losses to their assigned Accounting Office (AO). The AO Manager will notify their Accounting Administrator III who will inform the Deputy Director, Financial Services Division of the loss.

Initial Notification - Written notification of the loss is required to be sent to BSA and OSAE no later than the first business day following the discovery of the loss. In those instances where complete information is not available by the first business day following the discovery, a preliminary notification is required within the same time frame.

Preliminary Notification - The preliminary notification will be in writing and include at a minimum, the sequence of events, the means of discovery, the actual or estimated dollar amount and information that a complete notification will be made within thirty days. If not completed within thirty days, a progress report will be submitted every thirty days until completed.

Progress Report - Progress report(s) will be in writing every thirty days until the loss has been fully explained. If notifications indicate corrective actions have not been completed (i.e., new procedures are being developed; an investigation has begun but is not completed; punitive actions are being considered, etc) progress reports must be done until all open items have been closed. The progress reports are to indicate what has occurred since the last report was submitted, i.e., anything that has happened in relation to the incident in the last thirty (30) days. It is suggested that all progress reports be completed on the first of the month regardless of when the initial loss occurred (i.e., if the loss occurred on the 20th, the first progress report should be on the 1st of the following month, and then the 1st of every month until the loss has been fully explained).

- **REPLENISHMENT OF MISSING FUNDS** – In cases of missing funds, the designated staff will work with their Accounting Office to replenish the funds pending completion of the investigation.

Revolving Fund Advance - Upon receipt of the Initial Notification (or Preliminary Notification, if necessary), the Accounting Office will work with the designated staff to replenish missing funds as appropriate. All replenishments will be advanced from the Revolving Fund.

Clearance of the Advance - Upon receipt of the final Notification, the Accounting Office will proceed to clear the advance as directed by the investigative report. The advance cannot be cleared until the investigation is completed, and may require repayment from an employee or vendor or may be charged against an appropriation in accordance with Accounting Information Memo 99-13 *Discharge from Accountability*.

California Department of Corrections Financial Information Memo

State of California

Department of Corrections

Memorandum

Sample Notification Memorandum

Date :

To : *(Parties to Notify)*

Subject: **NOTIFICATION OF ACUTAL OR SUSPECTED FRAUD AND IRREGULATIES FROM**
(institution name)

In accordance with the State Administrative Manual Section 20080, this memorandum is to report a cash shortage of *(amount)* on *(date)* at *(institution name)*. The requirements for notifications are summarized below:

Sequence of Events - *(what happened)*.

Internal Controls that Failed - *(what circumstances allowed it to happen)*

Follow Up - *(what is taking place – i.e., an investigation)*

Corrective Action Taken - *(changes in procedures, training, staff reassignment)*

Any Punitive Actions Taken or Being Considered - *(staff disciplinary actions, repayment, etc)*

If you have any questions, please contact *(designated institution employee)*.

(Hiring Authority)

(Institution/Division)

cc: *(Chief Deputy Director)*, Field Operations
(Chief Deputy Director), Support Services
(Deputy Director), Institutions Division
(Deputy Director), Financial Services Division
(Assistant Director), Office of Investigative Services
(Regional Administrator, North/Central/South) Institutions Division
(Administrator, Regional Accounting North/South or Accounting Management Branch)
(Manager, Regional Accounting Office/HASS/Inmate Services)
(Associate Warden, Business Services)

California Department of Corrections Financial Information Memo

State of California

Department of Corrections

Memorandum

Sample Update Memorandum

Date :

To : *(Parties to Notify)*

Subject: **UPDATE NUMBER** *(number of report)* **ON MISSING FUNDS FROM** *(institution name)*

In accordance with the State Administrative Manual Section 20080, this is the *(number of report)* progress report on the cash shortage of *(amount)* on *(date)* at *(institution name)*. These updates will continue until the irregularity is resolved. The requirements are for the updates are noted below:

Update *(progress made since last report)*

Responsible Person - *(Special Agent in charge of investigation)*

Case number - *(case number assigned, opening date, anticipated closure if known)*

Corrective Action Taken - *(changes in procedures, training, staff reassignment)*

Any Punitive Actions Taken or Being Considered - *(staff disciplinary actions, repayment, etc)*

If you have any questions, please contact *(designated institution employee)*.

(Hiring Authority)

(Institution/Division)

cc: *(Chief Deputy Director)*, Field Operations

(Chief Deputy Director), Support Services

(Deputy Director), Institutions Division

(Deputy Director), Financial Services Division

(Assistant Director), Office of Investigative Services

(Regional Administrator, North/Central/South) Institutions Division

(Administrator, Regional Accounting North/South or Accounting Management Branch)

(Manager, Regional Accounting Office/HASS/Inmate Services)

(Associate Warden, Business Services)